

## Message Text

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44

ACTION XMB-04

INFO OCT-01 AF-06 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 INT-05 /056 W

----- 035003

R 291510Z SEP 75

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 2815

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

LIMITED OFFICIAL USE PRETORIA 3700

E.O.11652: N/A

TAGS: SF, BPRO, EFIN, EIND

SUBJECT: EXIMBANK - INFORMATION ON SOUTH AFRICAN IRON  
AND STEEL INDUSTRIAL CORPORATION, LTD.

REFERENCE: (A) STATE 226595 (B) PRETORIA 3482

1. EMBOFFS CALLED ON MESSRS. VAN ZYL, VAN DER MERWE AND PAISLEY OF ISCOR ON SEPT 26. IN LIEU ANNUAL REPORT (NOT ISSUED UNTIL NOVEMBER) THEY GAVE US PROSPECTUS, DATED AUGUST 29, 1975, FOR \$25 MILLION EUROBOND ISSUE CONTAINING ESSENTIALLY SAME INFO AS REPORT. THIS SHOWS LOSS OF R35.9 MILLION IN YEAR ENDED JUNE 30, 1975 ON TURNOVER OF R627.3 MILLION (COPY BEING POUCHED TO EXIM). (THIS ISSUE WAS INCIDENTALLY FULLY SUBSCRIBED, ACCORDING TO THEM.)

2. VAN ZYL SAID 73/74 AND 74/75 ACCOUNTS SUFFERED FROM CHARGING START-UP EXPENSES AT NEW CASTLE MILL TO CURRENT OPERATING ACCOUNT RATHER THAN CAPITALIZING THEM. THIS HAS BEEN LONG-TIME ISCOR ACCOUNTING PRACTICE. VAN ZYL SAID HE FEARED TO CHANGE THIS PRACTICE LEST SUSPICION ARISE OF "WINDOW DRESSING" HIS OPERATING STATEMENTS. HE PUT THE NEWCASTLE STARTING EXPENSES AT R34 MILLION LAST YEAR. ANOTHER FACTOR WAS PRACTICE OF STRAIGHT LINE

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DEPRECIATION OF ASSETS AND CONTINUING DEPRECIATION CHARGES AT

SAME RATE EVEN AFTER ZERO VALUE REACHED ON EQUIPMENT.

3. HE PREDICTED PROFIT OF R20 MILLION IN 75/76 WITH SAME ACCOUNTING PRACTICES, ALTHOUGH THIS FIGURE CALCULATED BEFORE SEPTEMBER 21 DEVALUATION. ISCOR STILL STUDYING DEVALUATION EFFECTS BUT VAN ZYL SAID MOST DEBTS IN FOREIGN CURRENCIES WERE COVERED FORWARD. FOR THE IMMEDIATE FUTURE, ISCOR FACES INCREASED COSTS ON IMPORTED SPARES BUT BASIC RAW MATERIALS ARE FROM DOMESTIC SOURCES.

4. ISCOR PRICES STILL BELOW DOMESTIC PRICES IN MOST COUNTRIES, ESPECIALLY AFTER DEVALUATION. FOREIGN STEEL PRODUCERS NOW MAKING SOME PRODUCTS AVAILABLE AT LOW (DUMPED?) PRICES ON WORLD MARKET BUT ISCOR'S DOMESTIC MARKET IS PROTECTED. ISCOR STILL NOT QUITE ABLE TO MEET DOMESTIC DEMAND. THUS IT EXPECTS TO CONTINUE AT FULL PRODUCTION. VAN ZYL SAID ALSO THAT EVEN IF LOCAL DEMAND DIPS BELOW NATIONAL PRODUCTION, PRODUCTS WOULD BE STOCKPILED.

5. IN DISCUSSING SAG GUARANTEES OF ISCOR BORROWINGS, HE SAID SAG GUARANTEES FINANCIAL LOANS TO ISCOR (SUCH AS EUROBOND FLOATATION MENTIONED) BUT AS A MATTER OF POLICY WILL NOT DO SO FOR SUPPLIER CREDITS. IF GOVERNMENT GUARANTEED ONE SUCH CREDIT IT WOULD FACE PRESSURE TO GUARANTEE ALL CREDITS TO PUBLIC CORPORATIONS, INCLUDING OUTSTANDING CREDITS FROM SEVERAL COUNTRIES. THIS WOULD BE ADMINISTRATIVE HEADACHE GOVERNMENT UNWILLING TO UNDERTAKE. HE CITED AGREEMENT WITH BRITISH ECGD THAT IF ISCOR GAVE SUCH GUARANTEES TO FOREIGN GOVERNMENT, IT WOULD HAVE TO DO SIMILARLY FOR ALL ECGD CREDITS BOTH OUTSTANDING AND FUTURE. PAISLEY AND VAN DER MERWE STATED THAT DURING THEIR VISIT TO BIERMAN OF EXIM IN NOVEMBER 1973, THEY HAD EXPLAINED THIS SITUATION IN DETAIL TO EXIM.

6. DESPITE LACK OF FORMAL GUARANTEE WE CONSIDER SAG WOULD NOT ALLOW ISCOR OR OTHER STATE-OWNED CORPORATIONS TO DEFAULT. SA IS HEAVILY DEPENDENT ON FOREIGN CAPITAL AND A DEFAULT BY ISCOR OR ANY OTHER PARASTATAL INSTITUTIONS WOULD PUT CREDIT-WORTHINESS OF WHOLE COUNTRY IN DOUBT. WE CONSIDER, IN OTHER WORDS, THAT THERE IS A DE FACTO IF NOT A DE JURE GOVERNMENT GUARANTEE ON ALL ISCOR'S DEPTS.

7. EMBASSY PERCEIVES THEREFORE NO POLITICAL OR OTHER GROUNDS FOR LIMITED OFFICIAL USE

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NOT EXTENDING CREDIT GUARANTEE FOR THIS BUCYRUS-ERIE ORDER.  
BOWDLER

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NNN

## Message Attributes

**Automatic Decaptioning:** X  
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**Disposition Authority:** buchant0  
**Disposition Case Number:** n/a  
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**Disposition Date:** 28 MAY 2004  
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**Disposition Reason:**  
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